

**RULES
OF
TENNESSEE REGULATORY AUTHORITY**

**CHAPTER 1220-4-7
PURCHASED GAS ADJUSTMENT RULES**

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1220-4-7-.01 DEFINITIONS.

- (1) “Gas Costs” shall mean the total delivered cost of gas paid or to be paid to Suppliers, including, but not limited to, all commodity/gas charges, demand charges, peaking charges, surcharges, emergency gas purchases, over-run charges, capacity charges, standby charges, gas inventory charges, minimum bill charges, minimum take charges, take-or-pay charges and take-and-pay charges, storage charges, service fees and transportation charges and any other similar charges which are paid by the Company to its gas suppliers in connection with the purchase, storage or transportation of gas for the Company’s system supply.
- (2) “Company” or “LDC” shall mean local gas distribution company regulated by the Tennessee Regulatory Authority.
- (3) “Fixed Gas Costs” shall mean all Gas Costs based on the Company’s right to demand gas or transportation on a daily or seasonal peak; but unless otherwise ordered by the Authority, shall not include other charges paid for gas reserve dedication (*e.g.*, reservation fees and gas inventory charges), minimum bill charges, minimum take charges, over-run charges. Emergency gas charges, take-or-pay and take-and-pay charges (all of which shall be considered commodity costs).
- (4) “Gas Charge Adjustment” shall mean the per unit amount billed by the Company to its customers solely for Gas Costs. The Gas Charge Adjustment shall be separately stated for firm customers and for non-firm customers.
- (5) “Suppliers” shall mean any person or entity, including affiliates of the Company, who locates, purchases, sells, stores and/or transports natural gas or its equivalent for or on behalf of the Company. Suppliers may include, but not be limited to interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users.
- (6) “Computation Period” shall mean the twelve (12) month period utilized to compute Gas Costs. Such period shall be the twelve (12) month period ending on the last day of a month which is no more than sixty-two (62) days prior to the filing date of a Purchased Gas Adjustment (PGA).
- (7) “Demand Billing Determinants” shall mean the annualized volumes for which the Company has contracted with Suppliers as of the first day of the Filing Month.
- (8) “Commodity Billing Determinants” shall mean the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. Should the Company expect to purchase commodity gas from several suppliers, the company shall allocate to each supplier a percentage of the total metered throughput, regardless of source, during the Computation Period, adjusted for known and measurable changes. The percentage used to allocate among suppliers shall be

(Rule 1220-4-7-.01, continued)

based on historical takes during the Computation Period, if appropriate; otherwise it shall be based upon the best estimate of the Company.

- (9) “Authority” shall mean Tennessee Regulatory Authority.

Authority: T.C.A. §§65-2-102 and 65-4-104. **Administrative History:** Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; “Commission” and references to the “Commission” were changed to “Authority” and references to the “Authority”; effective March 28, 2003.

1220-4-7-.02 GENERAL PROVISIONS

- (1) These Purchased Gas Adjustment (PGA) Rules are intended to permit the company to recover, in timely fashion, the total cost of gas purchased for delivery to its customers and to assure that the Company does not over-collect or under-collect Gas Costs from its customers.
- (2) These Rules are intended to apply to all Gas Costs incurred in connection with the purchase, transportation and/or storage of gas purchased for general system supply, including, but not limited to, natural gas purchased from interstate pipeline transmission companies, producers, brokers, marketers, associations, intrastate pipeline transmission companies, joint ventures, providers of liquefied natural gas (LNG), liquefied petroleum gas (LPG), substitute, supplemental or synthetic natural gas (SNG), and other hydrocarbons used as feed-stock, other distribution companies and end-users, whether or not the Gas Costs are regulated by the Federal Energy Regulatory Commission and whether or not the provider of the gas, transportation or storage is affiliated with the Company.
- (3) To the extent, practicable, any revision in the PGA shall be filed with the Authority no less than thirty (30) days in advance of the proposed effective date and shall be accompanied by the computations and information required by these Rules. It is recognized, however, that in many instances the Company receives less than thirty (30) days notice from its suppliers and that other conditions may exist which prevent the Company from providing thirty (30) days advance notice. Therefore, should circumstances occur where information necessary for the determination of an adjustment under these Rules is not available to the Company so that the thirty (30) days requirement can be met, the Authority may permit the Company to place rates into effect with shorter advance notice, upon good cause shown.
- (4) The rates for gas service set forth in all of the Rate Schedules of the Company shall be adjusted pursuant to the terms of the PGA, or any specified portion of the PGA as determined by individual Rate Schedule(s).
- (5) No provisions of these rules shall supersede any provision of a special contract approved by the Authority.

Authority: T.C.A. §§65 -2-102 and 65-4-104. **Administrative History:** Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; “Commission” and references to the “Commission” were changed to “Authority” and references to the “Authority”; effective March 28, 2003.

1220-4-7-.03 COMPUTATIONS AND APPLICATION OF THE PURCHASED GAS ADJUSTMENT (PGA).

- (1) The PGA shall consist of three major components: (a) the Gas Charge Adjustment; (b) the Refund Adjustment and (c) the Actual Cost Adjustment (ACA).
 - (a) Computation of Gas Charge Adjustment. The Company shall compute the jurisdictional Gas Charge Adjustment at such time that the Company determines that there is a significant change in its Gas Costs.

(Rule 1220-4-7-.03, continued)

1. Formulas. The following formulas shall be used to compute the Gas Charge Adjustment:

- (i) Firm GCA =

$$\left(\left(\frac{D \pm DACA}{SF} \right) - DB \right) + \left(\left(\frac{P + T + SR \pm CACA}{ST} \right) - CB \right)$$

- (ii) Non-Firm GCA

$$\left(\frac{P + T + SR \pm CACA}{ST} \right) - CB$$

2. Definitions of Formula Components.

- (i) GCA = The Gas Charge Adjustment in dollars per Ccf/therm, rounded to no more than five decimal places.
- (ii) D = The sum of all fixed Gas Costs.
- (iii) DACA = The demand portion of the ACA.
- (iv) P = The sum of all commodity/gas charges.
- (v) T = The sum of all transportation charges.
- (vi) SR = The sum of all FERC approved surcharges.
- (vii) CACA = The commodity portion of the ACA.
- (viii) DB = The per unit of demand costs or other fixed charges included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Authority so approves).
- (ix) CB = The per unit rate of variable Gas Costs included in base rates in the most recently completed general rate case (which may be zero if the Company so elects and the Authority so approves).
- (x) SF = Firm sales.
- (xi) ST = Total sales.

3. Determination of Factors - Gas Charge Adjustment.

- (i) Demand Charges (Factor D)

All Fixed Gas Costs that do not vary with the amount of gas purchased or transported, including, but not limited to, the product resulting from the

(Rule 1220-4-7-.03, continued)

multiplication of (1) the respective Demand Billing Determinants by (2) the respective Supplier demand rates that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority and (3) any fixed storage charges.

(ii) Demand Actual Cost Adjustment (Factor DACA)

See subsection (1)(c) Actual Cost Adjustment.

(iii) Purchased Commodity Charges (Factor P)

All commodity or other variable Gas Costs associated with the amount of gas purchased or transported including, but not limited to, the product resulting from the multiplication of (1) the respective Demand Billing Determinants by (2) the respective Supplier demand rates that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority and (3) any fixed storage charges.

(iv) Transportation Charges (Factor T)

The transportation charges actually invoiced to the Company during the Computation Period or expected to be invoiced in the Company during the current period.

(v) FERC Approved Surcharges (Factor SR)

The sum of all FERC approved surcharges, including gas inventory charges or its equivalent, actually invoiced or expected to be invoiced to the Company during the Computation Period or that are effective, known or reasonably anticipated at the time the PGA is filed with the Authority.

(vi) Actual Cost Adjustment (Factor ACA)

See subsection (1)(c) Actual Cost Adjustment.

(viii) Total Sales (Factor ST)

Total volumes billed to all the Company's customers during the Computation Period, regardless of source, adjusted for known measurable changes.

4. Modification of Formulas.

- (i) The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified from time to time to carry out the intent of these PGA Rules. Any proposed modification to the formulas shall contain a proposed effective date. The Authority may suspend the modification within thirty (30) days of filing, in which case the proposed modification shall be subject to notice and hearing; otherwise, the modification to the formula shall be effective on the proposed effective date.

5. Filing with the Authority.

- (i) The computation of the Gas Charge Adjustment shall be filed in accordance with the notice requirements specified in Rule 1220-4-7-.02(3) shall remain in effect

(Rule 1220-4-7-.03, continued)

until a revised Gas Charge Adjustment is computed and filed pursuant to these Rules.

- (ii) The Company shall file with the Authority a transmittal letter, an exhibit showing the computation of the Gas Charge Adjustment, a PGA tariff sheet, and any applicable revised tariff sheets issued by Suppliers. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the primary reasons for revision, and the effective date.
 - (iii) If the Company proposes to recover any Gas Costs relating to (1) any payments to an affiliate or (2) any payments to a nonaffiliate for emergency gas, over-run charges, or (3) the payment of any demand or fixed charges in connection with an increase in contract demand, the Company must file with the Authority a statement setting forth the reasons why such charges were incurred and sufficient information to permit the Authority to determine if such payments were prudently made under the conditions which existed at the time the purchase decisions were made.
 - (iv) Any filing of a rate change under these Rules shall be effective on the proposed effective date unless the Authority shall act to suspend the proposed change within thirty (30) days after the filing, in which case the filing shall be subject to notice and hearing.
- (b) Refund Adjustment. The Refund Adjustment shall be separately stated for firm and non-firm customers, and may be either positive or negative.

1. Computation of Refund Adjustment. The Company shall compute a Refund Adjustment on the last day of each calendar quarter using the following formulas:

$$(i) \quad \text{Firm RA} = \left(\frac{\text{DR L} - \text{DR2}}{\text{SFR}} \right) + \left(\frac{\text{CR1} - \text{CR2} \pm \text{CR3} \pm i}{\text{STR}} \right)$$

$$(ii) \quad \text{Non-Firm RA} = \left(\frac{\text{CR1} - \text{CR2} \pm \text{CR3} \pm i}{\text{STR}} \right)$$

2. Definitions of Formula Components.

- (i) RA = The Refund Adjustment in dollars per Ccf/therm, rounded to no more than five decimal places.
- (ii) DRI = Demand refund not included in a currently effective Refund Adjustment and received from Suppliers by check, wire transfer, or credit memo.
- (iii) DR2 = A demand surcharge from a Supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.
- (iv) CR1 = Commodity refund not included in a currently effective Refund Adjustment, and received from Suppliers by check, wire transfer, or credit memo.
- (v) CR2 = A commodity surcharge from a Supplier not includable in the Gas Charge Adjustment, and not included in a currently effective Refund Adjustment.
- (vi) CR3 = The residual balance of an expired Refund Adjustment.

(Rule 1220-4-7-.03, continued)

- (vii) I = Interest on the “Refund Due Customers’ Account”, using the average monthly balance based on the beginning and ending monthly balances. The interest rates for each calendar quarter used to compute such interest shall be a rate equal to the arithmetic mean (to the nearest one-hundredth of one percent) of the prime rate value published in the “Federal Reserve Bulletin” or in the Federal Reserve’s “Selected Interest Rates” for the 4th, 3rd and 2nd months preceding the 1st month of the calendar quarter.
 - (viii) SFR = Firm sales as defined in the Gas Charge Adjustment computations, less sales under a transportation or negotiated rate schedule.
 - (ix) STR = Total sales as defined in the Gas Charge Adjustment computation, less sales under a transportation or negotiated rate schedule.
- 3. Modification of Formula. The formulas set forth above are not designed for use with two-part demand/commodity rate schedules; however, the formulas may be modified from time to time to carry out the intent of these PGA Rules. Any proposed modification to the formulas shall contain a proposed effective date. The Authority may suspend the modification within thirty (30) days of filing, in which case the proposed modification shall be subject to notice and hearing; otherwise, the modification to the formula shall be effective on the proposed effective date.
- 4. Filing with the Authority.
 - (i) The computation of the Refund Adjustment shall be filed in accordance with the notice requirements specified in Rule 1220-4-7-.02(3) and shall remain in effect for a period of twelve (12) months or for such longer or shorter period of time as required to appropriately refund the applicable refund amount.
 - (ii) The company shall file with the Authority a transmittal letter, exhibits showing the computation of the Refund Adjustment and interest calculations, and a PGA tariff sheet. The transmittal letter shall state the PGA tariff sheet number, the service area(s), the reason for adjustment, and the effective date. Should the Company have a Gas Charge Adjustment filing to become effective the same date as a Refund Adjustment, a separate transmittal letter and PGA tariff sheet shall not be necessary.
- (c) Actual Cost Adjustment.
 - 1. Commencing with the initial effective date of these Rules, the Company shall calculate the ACA monthly. The Company shall be required to include the ACA in its calculation of the Gas Charge Adjustment at least monthly. Should the Company or Authority Staff determine it appropriate to include the ACA in the Gas Charge Adjustment more frequently than once per year, then the company may be allowed/directed to do so. The Authority shall resolve disputes between the Company and the Staff regarding timing of such ACAs.
 - 2. The ACA shall be the difference between (1) revenues billed customers by means of the Gas Charge Adjustment and (2) the cost of gas invoiced the Company by suppliers plus margin loss (if allowed by order of the Authority in another docket) as reflected in the Deferred Gas Cost Account. The balance of said account shall be adjusted for interest at the rate provided for the calculation of interest with respect to the Refund Adjustment. The ACA shall be segregated into demand and commodity, and shall be added to or deducted from, as appropriate, the respective demand and commodity costs included in

(Rule 1220-4-7-.03, continued)

the Gas Charge Adjustment. Supplemental sheets showing the calculations of margin losses and cost savings shall also be provided.

3. Adjustments to Prior Period ACAs. In the event that circumstances warrant a correction to or restatement of a prior period ACA, such correction or restatement shall be made in accordance with the ACA calculation in effect for the time period(s) to which the correction or restatement relates. The resulting adjustment shall then be added to or deducted from the appropriate ACA in the next ensuing ACA filing with the Authority.
- (2) Annual Filing with the Authority. Each year, the Company shall file with the Authority an annual report reflecting the transactions in the Deferred Gas Cost Account. Unless the Authority provides written notification to the Company within one hundred eighty (180) days from the date of filing the report, the Deferred Gas Cost Adjustment Account shall be deemed in compliance with the provisions of these Rules. This one hundred eighty (180) day notification period may be extended by mutual consent of the Company and the Authority Staff or by order of the Authority.

Authority: T.C.A. §§65-2-102 and 65-4-104. **Administrative History:** Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; “Commission” and references to the “Commission” were changed to “Authority” and references to the “Authority”; effective March 28, 2003.

1220-4-7-.04 GAS COST ACCOUNTING.

- (1) To appropriately match revenues with cost of purchased gas as contemplated under these Rules, the Company shall originally record the cost of purchased gas in a “Deferred Gas Cost” Account. Monthly, the Company shall debit “Natural Gas Purchases” with an amount equal to any Gas Cost component included in the Company’s base tariff rates (base rate) plus the PGA rate, as calculated hereunder, multiplied by the appropriate volumes sold or billed to customers. The corresponding monthly credit entry shall be made to the “Deferred Gas Cost” Account.

Authority: T.C.A. §§65-2-102 and 65-4-104. **Administrative History:** Original rule filed October 29, 1993; effective March 1, 1994.

1220-4-7-.05 AUDIT OF PRUDENCE OF GAS PURCHASES.

- (1) The audit of prudence of gas purchases shall apply to Class A gas companies only. Class A gas company shall mean a local gas distribution company having annual gas operating revenues of two million five hundred thousand dollars (\$2,500,000) or more.
 - (a) Unless otherwise ordered by the Authority, the Staff and the LDCs shall prepare and issue a request for proposals and after reviewing the proposals, recommend to the Authority a qualified consultant to evaluate and report annually on the prudence of any Gas Costs included in the PGA. Subject to the approval of the Authority, a contract to perform the audit shall be awarded to the consultant to cover at least two (2) consecutive annual audits.
 1. The scope of the evaluation shall be agreed to by the Staff and the LDCs and shall include guidelines to be used by the consultant in performing any such prudence review.
 2. Before selecting a consultant, the Staff and the LDCs shall determine the maximum amount to be paid for the audits that will be included in the contract. Each LDC shall pay to the consultant an equal portion of the cost of the audit(s).
 3. The amount paid to the consultant by an LDC shall be recorded in the LDC’s Deferred Gas Cost Account and shall be recovered through the procedures set forth in these PGA rules.

(Rule 1220-4-7-.05, continued)

- (b) Each LDC shall file a non-binding gas purchase plan with the Authority at least annually.
 - 1. An LDC may, at its option, update the plan whenever it deems appropriate.
 - 2. The gas purchase plan shall include a general statement of the Company's gas purchasing policies (*e.g.*, the consideration given by the Company to the cost of gas, the security of the gas supply, the ability to obtain deliverability of the gas and other factors deemed relevant by the Company) which are established under the guidelines adopted under subsection (1)(a) of this rule.
 - 3. All such plans shall be confidential and may be filed under appropriate protective orders.
- (c) In connection with the filing of the annual report of transactions in the Deferred Gas Cost Account required by Rule 1220-4-7-.03(2), each Class A LDC shall file a summary report detailing its gas purchasing practice during the period covered by the annual report. This requirement may be satisfied by the inclusion of such summary report information in the consultant's report that is required under section (1) of this rule.
 - 1. Within ninety (90) days after receipt of the gas purchase practices report information and the consultant's report, the Authority, in its discretion, may order a hearing to review the prudence of an LDC's gas purchasing practices and subject to the hearing, order the LDC to refund any imprudent gas costs collected under the provisions of the PGA Rules during the annual period under review. Any such order shall be subject to appeal in accordance with applicable law.
- (2) If the Authority does not order a hearing within the ninety (90) day period, the LDC's gas purchasing practices shall be deemed prudent.

Authority: T.C.A. §§65 -2-102 and 65-4-104. **Administrative History:** Original rule filed October 29, 1993; effective March 1, 1994. Editorial changes made by the Secretary of State pursuant to Public Chapter 305 of 1995; "Commission" and references to the "Commission" were changed to "Authority" and references to the "Authority"; effective March 28, 2003.